

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7525

BILL NUMBER: HB 2024

DATE PREPARED: Jan 12, 2001

BILL AMENDED:

SUBJECT: Public Pensions.

FISCAL ANALYST: James Sperlik

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FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides for an annual cost of living adjustment (COLA) to pension benefits of Public Employees' Retirement Fund Members and Indiana State Teachers' Retirement Fund members that is equal to the COLA determined for the preceding year for federal Social Security retirement benefits.

Effective Date: June 30, 2001.

Explanation of State Expenditures: *Teachers' Retirement Fund* - The table, below, shows the impact of this bill for the Teachers' Retirement Fund.

	<u>Closed Plan</u>	<u>New Plan</u>	<u>Total</u>
Increase in Unfunded Actuarial Accrued Liability (UAAL)	\$2,693.4 M	\$116.4 M	\$2,809.8 M
Increase in Contribution Rate as % of Payroll:			
Normal Cost:	2.3%	2.3%	2.3%
UAAL (40 year amortization):	<u>3.5%</u>	<u>0.8%</u>	<u>3.0%</u>
Total:	5.8%	3.1%	5.3%
First Year Payout	\$10.3 M	\$20,633	\$10.3 M
Second Year Payout	\$22.5 M	\$53,807	\$22.6 M
Total	\$33.8 M	\$74,440	\$33.9 M

These estimates are based on the same data, methods, and assumptions as were used for the most recent

annual actuarial valuation as of June 30, 1999. COLA increases were assumed to be 3% per year compounded. The fund affected for the Closed Plan is the State General Fund.

Public Employees' Retirement Fund - Currently, PERF uses a 2% annual assumption to account for ad hoc COLAs passed by the General Assembly. Social Security COLAs, however, have generally exceeded 2%. Based on an analysis of past Social Security COLAs, it has been estimated that a 3.5% annual assumption would be necessary to anticipate future Social Security COLAs.

Current statute provides that any COLA applicable to PERF benefit recipients also is applicable to the Excise Police and Conservation Officers' Retirement Plan benefit recipients and to the benefit recipients of the Legislators' Defined Benefit Plan. The table, below, shows the impact of this proposal.

	<u>State</u>	<u>Local Units</u>	<u>Total</u>	<u>Excise Police Conservation Officers</u>	<u>Legislators</u>
Estimated Increase in Unfunded Accrued Liability	\$340 M	\$405 M	\$745 M	\$7.24 M	\$751,000
Estimated Increase in Annual Funding	\$35.4 M	\$45.7 M	\$81.1 M	\$660,000	\$65,700
Increase in Annual Funding as % of Payroll	2.9%	2.4%	2.6%	6.0%	NA

This estimate is based on July 1, 1999 actuarial valuations. The funds affected for PERF at the state level are the State General Fund (55%), or \$19.47 M, and various dedicated funds (45%), or \$15.93 M. The split represents the amount each fund contributes to personal services in the state budget. The other funds affected include the Administrative Enforcement Fund (Excise Police), the state General Fund and the Fish and Wildlife Fund (Conservation Officers), and the state General Fund (Legislators).

Explanation of State Revenues:

Explanation of Local Expenditures: *Public Employees' Retirement Fund* - Local units will face an increase in annual funding as a percent of payroll of 2.4%.

Teachers' Retirement Fund - For school corporations with members in the New Plan, payroll cost will increase by 3.1% .

Explanation of Local Revenues:

State Agencies Affected: Public Employees' Retirement Fund; Teachers' Retirement Fund.

Local Agencies Affected: Local Units with members in PERF; local school corporations with members in the TRF New Plan.

Information Sources: Denise Jones of Gabriel Roeder Smith & Co., actuaries for the TRF, 1-800-521-0498; Doug Todd of McCready & Keene, Inc., actuaries for PERF, 576-1508.

DEFINITIONS

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.

Cost of Living Adjustment An increase or decrease in wages or pension benefits according to the rise or fall in the cost of living as measured by some index, often the Consumer Price Index.

Defined Benefit--A program that uses defined benefits if benefits to be received by employees after retirement are predetermined by a formula. The employer's contributions under such a program are determined on the basis of the benefits that are thus payable.

Funding--a systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.